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PAGE 01 STATE 107655
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INFO OCT-01 ISO-00 INR-10 ONY-00 /021 R

DRAFTED BY NEA/EGY:DZWEIFEL/BD
APPROVED BY NEA/EGY:DNEWBERRY
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TO AMEMBASSY CAIRO

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E.O. 11652: GDS

TAGS: EGEN, ECON

SUBJECT: ASSESSING POTENTIAL POLITICAL IMPACT STEMMING FROM
EGYPT'S DOMESTIC ECONOMIC CONDITIONS

1. BASED ON CAIRO'S REPORTING, THE DEPARTMENT AND OTHER
WASHINGTON END-USERS ARE STRUCK BY TWO SOMEWHAT DIVERGENT
TRENDS EVIDENT IN EGYPT'S CURRENT ECONOMIC SITUATION.
THESE BASIC TRENDS MIGHT BE SUMMED UP AS FOLLOWS: (A)
EGYPTIAN BOP STATISTICS AND OTHER INDICES POINT TO AN IM-
PROVED FINANCIAL POSITION. SIMILARLY, EGYPTIAN USE OF GOE
AND FOREIGN DONOR FUNDS HAS IMPROVED SOMEWHAT. (B) ON
LESS OPTIMISTIC TACK, REPORTS ABOUT COMMODITY SHORTAGES,
INFLATION, CORRUPTION, ETC., COMBINE TO RAISE QUESTIONS
ABOUT PUBLIC OPPOSITION TO GOE POLICIES AND TO SUGGEST
POSSIBLE RECURRENCE OF ANTI-GOVERNMENT ACTIONS--PERHAPS
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SIMILAR TO 1977 RIOTS.

2. INTELLIGENCE COMMUNITY WILL BE ASKED TO DRAW UP ASSESS-
MENT ON HOW EXISTING ECONOMIC CONDITIONS MIGHT AFFECT OVER-
ALL POLITICAL STABILITY WITHIN EGYPT AND, BY EXTENSION,
SADAT'S MANEUVERABILITY. IN ORDER TO FURTHER THIS OBJECTIVE,
WE HAVE FORMULATED A NUMBER OF PRELIMINARY OBSERVATIONS AND
QUESTIONS RELEVANT THERETO. EMBASSY REPORTING HAS COVERED
SOME OF THESE, AT LEAST IN PART. NONETHELESS, DEPARTMENT
WOULD APPRECIATE EMBASSY COMMENTS OR ADDITIONAL REPORTING
ON THESE ASPECTS, AS WELL AS ON OTHER POINTS WHICH EMBASSY

BELIEVES PERTINENT TO PROPOSED STUDY.

3. BASIC ECONOMIC CONDITIONS: IN GENERAL, CAIRO REPORTING HAS CONVEYED A RATHER GLOOMY PICTURE CONCERNING IMMEDIATE SITUATION. ENSURING ADEQUATE SUPPLY AND DISTRIBUTION OF FOODSTUFFS AND COMMODITIES IS SERIOUS CONCERN, ALONG WITH ATTENDANT ISSUES OF PRICING AND BLACK-MARKET ACTIVITY. (AT SAME TIME, AT LEAST ONE REPORT INDICATED THAT ALLEGATIONS OF SHORTAGES WERE OVERDRAWN.) PERTINENT QUESTIONS WHICH WE SEEK TO ANSWER INCLUDE:

--ARE DOMESTIC REPERCUSSIONS OF GOE ECONOMIC POLICIES BETTER, WORSE, OR ABOUT AS MIGHT HAVE BEEN ANTICIPATED?

--TO WHAT EXTENT IS "MAN ON THE STREET" AWARE OF BROADER POLICY OBJECTIVES? DOES AWARENESS (OR LACK THEREOF) MAKE ANY DIFFERENCE, EITHER IN TERMS OF POLICY IMPLEMENTATION OR GOVERNMENT RESOLVE TO PRESS FORWARD?

--IS HOARDING A REAL PROBLEM AT PRESENT? IF SO, WHAT ARE IMPLICATIONS?

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--HOW SIGNIFICANT IS EFFECT OF CORRUPTION, AND TO WHAT EXTENT IS RESPONSIBILITY/BLAME FIXED IN PUBLIC PERCEPTION?

--DOES THE EMBASSY HAVE ANY FURTHER INFORMATION CONCERNING DIFFERING ECONOMIC CONDITIONS (AND, BY EXTENSION, PERCEPTION OF THE PROBLEMS) WITHIN VARIOUS PARTS OF THE COUNTRY? IN TERMS OF IMMEDIATE POLITICAL IMPACT, TO WHAT EXTENT ARE PROBLEMS AND SOLUTIONS BASED ON CONDITIONS IN CAIRO WHICH MAY NOT EXIST ELSEWHERE?

4. THE IMPACT OF POLITICAL DEBATE: CRITICISM OF GOVERNMENT POLICY AND ACTION IN LIVELY DEBATE WHICH HAS TAKEN PLACE IN THE PEOPLES' ASSEMBLY AND THROUGH THE MEDIA IS A FAIRLY RECENT PHENOMENON. WE DO NOT HAVE A REALLY GOOD EVALUATION CONCERNING THE EXTENT TO WHICH MEMBERS OF THE PA REFLECT POPULAR VIEWS AND, CONTRARILY, HOW MUCH OF POPULAR DISSATISFACTION IS GENERATED BY AND ATTRIBUTABLE TO RECENT AIRING OF ISSUES THROUGH PUBLIC DIALOGUE. QUESTIONS TO WHICH WE SEEK ANSWERS INCLUDE:

--HOW REPRESENTATIVE OF PUBLIC ATTITUDES ARE MEMBERS OF PA WHO CRITICIZE GOE POLICIES AND ACTIONS?

--TO WHAT EXTENT HAS PA DEBATE STIMULATED DISCONTENT?

-- WERE POSITIONS TAKEN BY SALEM AND KAISSOUNI DEFENDING GOE POLICY IN PA DEBATE COORDINATED WITH SADAT?

--IN CONVERSATION WITH VISITING NWC GROUP, SADAT INDICATED

HIGH LEVEL OF PERSONAL INVOLVEMENT IN PRESENT GOE EFFORTS TO FIND SOLUTIONS. WE WOULD APPRECIATE EMBASSY'S EVALUATION OF HIS EFFECTIVENESS IN THIS ROLE, AS WELL AS ANY THOUGHTS ABOUT HIS PERSISTENCE AND POSSIBLE DIRECT INVOLVEMENT IN IMPLEMENTATION OF ANY POLICY DECISIONS.

--TO WHAT EXTENT HAS POLITICAL LIBERALIZATION CONTRIBUTED TO POLARIZATION OF PUBLIC ATTITUDES ON ECONOMIC ISSUES?

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ARE THERE INDICATIONS THAT SADAT MIGHT SEEK TO CURB ANY SUCH TENDENCY BY SLOWING DOWN LIBERALIZATION PROCESS?

-- TO WHAT DEGREE CAN THE NEO-WAFD BE EXPECTED TO EXPLOIT ECONOMIC PROBLEMS AND WHAT IMPACT MIGHT ITS DECISION HAVE?

5. CABINET MANEUVERS: AS CONTROVERSY CONCERNING ECONOMIC CONDITIONS AND POLICY HAS SHARPENED, THE CABINET HAS BECOME THE LOCUS OF CONSIDERABLE -IMFIGHTING. DEPUTY PRIME MINISTER KAISOUNI'S RESIGNATION HAS BEEN TENDERED -- BUT EVIDENTLY NOT ACCEPTED. THE RESIGNATION OF MINISTER OF SUPPLY AND TRADE, ZAKARIYA TEWFIK, ALSO SEEMS UNCERTAIN. DIFFERENCES AMONG THE "ECONOMIC GROUP; AND THE REST OF THE CABINET HAVE BEEN HEIGHTENED BY PERSONAL DISAGREEMENT BETWEEN KAISOUNI AND GAMASY OVER EXPENDITURE OF FUNDS RECEIVED FROM KUWAIT. PRIME MINISTER SALEM'S WEAK LEADERSHIP HAS HINDERED RESOLUTION OF DIFFERENCES AMONG THIS RATHER FRACTIOUS GROUP. IT APPEARS THAT A "SCAPEGOAT" MAY BE IN THE OFFING, AND PRIME CANDIDATES WOULD SEEM TO BE EITHER KAISOUNI OR SALEM. FROM SADAT'S VANTAGE POINT, ATTRACTIVENESS OF SUCH A "SOLUTION" IS DIMINISHED BY THE DEARTH OF SUITABLE CANDIDATES TO REPLACE EITHER. QUESTIONS WHICH WE NEED TO ANSWER INCLUDE:

--WHAT IS BASIS FOR SALEM'S CONTINUING "HOLD" ON SADAT?

--WHAT ARE ASSESSMENTS OF POTENTIAL REPLACEMENTS? FROM OUR VANTAGE POINT, IT WOULD SEEM THAT SAYED MAREI MIGHT BE AN EXPENDABLE ASSET -- SOMEONE WHO QUICKLY COULD BECOME A TARGET ON CHARGES OF CORRUPTION; MUSTAFA SKHALIL HAS DISADVANTAGE OF BEING CLASSIC PARTY FIGURE, ETC.

--IS "ECONOMIC TEAM" UNDER FIRE BECAUSE OF ACTUAL SUCCESS
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OF POLICY WHICH UNAVOIDABLY HAS RESULTED IN SHORT TERM ECONOMIC DISLOCATIONS, OR BECAUSE OF BASIC ECONOMIC DETERIORATION (I.E. FAILURE OF THOSE POLICIES)?

--WHAT IS LINE-UP/INVOLVEMENT OF OTHER MEMBERS OF CABINET

ON IMF PROPOSALS FOR EGYPTIAN ECONOMIC POLICY?

--IS KAISSOUNI REAL TARGET FOR DISCONTENT OR MERELY
SCAPEGOAT?

6. OPTIONS AND PROSPECTS: ALTHOUGH THERE HAVE BEEN FEW INDICATIONS THAT GOE MIGHT CONTEMPLATE REVERSAL OF BASIC ECONOMIC POLICY, TENDENCY TO TEMPORIZE CONCERNING IMPLEMENTATION HAS BEEN EXACERBATED BY CURRENT DIFFICULTIES. PRESIDENT SADAT'S PREDILECTION TO FINESSE DIFFICULT ECONOMIC POLICY DECISIONS MIGHT TEMPT HIM TO SEEK SOLUTION THROUGH CABINET RESHUFFLE, PERHAPS RETAINING BOTH SALEM AND KAISSOUNI WHILE LETTING GO SOME LESSER FIGURES. SUCH ACTION MIGHT DEFUSE SOME OF ISSUES, BUT WOULD IMPACT POSITIVELY ON FUNDAMENTAL SITUATION ONLY INsofar AS REPLACEMENTS MIGHT DEAL WITH BASIC PROBLEMS MORE EFFECTIVELY. WE WISH TO ADDRESS FOLLOWING QUESTIONS AMONG OTHERS:

--WHAT MEASURES ARE FEASIBLE IN DEALING WITH CURRENT SITUATION?

--IF SADAT RESORTS TO CABINET CHANGES, WOULD HE PERCEIVE THIS TO BE "SOLUTION" OR RATHER AS MEANS OF INCREASING THE COMPETENCE OF GOVERNMENT TO HANDLE PROBLEMS?

--WHAT INDICATIONS ARE THERE, IF ANY, CONCERNING POSSIBLE SHIFTS IN BASIC GOE ECONOMIC POLICY?

--ARE POLITICAL PRESSURES SUCH THAT SADAT PERFORCE WILL GO SLOW IN IMPLEMENTING ECONOMIC REFORMS?

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--IF ECONOMIC TEAM IS REPLACED, WHO ARE LIKELY CANDIDATES, AND WHAT ARE THEIR RESPECTIVE TALENTS/PROSPECTS?

7. INTERNATIONAL ASPECTS: THE IMF CONTINUES TO PRESS FOR IMPLEMENTATION OF ECONOMIC REFORMS WHICH ARE POLITICALLY DIFFICULT, ESPECIALLY IN TERMS OF ELIMINATION OF SUBSIDIES. BOTH IBRD AND IMF TAKE GUARDED POSITIONS CONCERNING GOE ECONOMIC PROSPECTS OVER MID-TERM FUTURE. GOE MEMBERS INDICATE SOME RELUCTANCE TO RESPOND TO EGYPT'S NEEDS IN REALLY FORTHCOMING FASHION -- SHORT OF A PERCEIVED NEED TO DO SO IN ORDER TO PREVENT REALLY DIRE POLITICAL OR ECONOMIC CONSEQUENCES WHICH MIGHT EXTEND BEYOND EGYPT. MEANTIME, "STEADFASTNESS" STATES AT LEAST IN ABSTRACT WELCOME DEVELOPMENTS WHICH MIGHT WEAKEN SADAT -- INCLUDING ECONOMIC DIFFICULTIES. IN SUM, GOE MUST ADDRESS NEED TO RECONCILE ANY PURELY DOMESTIC "SOLUTIONS" WITH NECESSITY TO MAINTAIN CONFIDENCE OF IFI'S AND ASSURE CONTINUED SUPPORT FROM ARAB DONORS. IT WOULD BE HELPFUL TO HAVE EMBASSY COMMENTS ON FOLLOWING:

-- WHAT IS LIKELIHOOD THAT PRESENT ECONOMIC DIFFICULTIES
WILL ADVERSELY AFFECT SADAT'S APPROACH TO PEACE NEGOTIA-
TIONS?

-- IS THERE ANY EVIDENCE OF AN ANTI-U.S. BACKLASH IN
PRESENT DEVELOPMENTS?

--WHAT APPROACHES IS GOE MAKING TO ARAB DONORS IN SEEKING
SOLUTION TO PRESENT ECONOMIC DIFFICULTIES?

--WHAT ROLE, IF ANY, ARE ARAB OPPONENTS PLAYING IN SHAPING
EITHER PROBLEM OR SOLUTION THERETO?

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--ARE OTHER ARAB GOVERNMENTS LIKELY TO SEEK SIGNIFICANT
POLITICAL CONCESSIONS FROM SADAT (E.G. RECONCILIATION WITH
"REJECTIONISTS") AS PRICE FOR SUPPORT IN SOLVING PROBLEMS?

--WHAT IS BACKLASH POTENTIAL OF FUNDING DEMANDS RE U.S.
MILITARY PURCHASES?

8. WE REALIZE THAT RESPONDING TO POINTS RAISED ABOVE WILL
ADD TO EMBASSY'S ALREADY HEAVY WORKLOAD, AND THAT SOME
HAVE BEEN DEALT WITH IN PREVIOUS REPORTING. NONETHELESS,
SIGNIFICANCE OF THESE DEVELOPMENTS, ALONG WITH POTENTIAL
IMPACT ON U.S. POLICY PLANNING, SUCH THAT WE NEED THOROUGH-
LY TO ANALYZE ALL ASPECTS IN SYSTEMATIC FASHION. NEEDLESS
TO SAY, EMBASSY INPUT IS A VITAL PART OF THIS UNDERTAKING.
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Message Attributes

Automatic Decaptioning: Z
Capture Date: 26 sep 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, INTELLIGENCE ASSESSMENTS, POLITICAL SITUATION
Control Number: n/a
Copy: SINGLE
Draft Date: 27 apr 1978
Decaption Date: 20 Mar 2014
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978STATE107655
Document Source: ADS
Document Unique ID: 00
Drafter: NEA/EGY:DZWEIFEL/BD
Enclosure: n/a
Executive Order: 11652 GDS
Errors: n/a
Expiration:
Film Number: D780181-0839
Format: TEL
From: STATE
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t197804109/baaaeymt.tel
Line Count: 253
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Message ID: e07335a6-c288-dd11-92da-001cc4696bcc
Office: ORIGIN NEA
Original Classification: SECRET
Original Handling Restrictions: ONLY
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: SECRET
Previous Handling Restrictions: ONLY
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 07 jul 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2829080
Secure: OPEN
Status: <DBA CORRECTED> jms 970818
Subject: ASSESSING POTENTIAL POLITICAL IMPACT STEMMING FROM EGYPT'S DOMESTIC ECONOMIC CONDITIONS
TAGS: ECON, EGEN, PINR, PINT
To: CAIRO
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/e07335a6-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014